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NIE-46: CURRENT OUTLOOK IN IRAN

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Department of State Contribution

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SECRET

i

TABLE OF CONTENTS

	<u>Page</u>
I. Background . . . . .	1
II. Probable Alternative Outcomes of the Oil Issue . . .	4
III. Current and Probable Status of US Interests . . . .	7

SECRET

SECRET

NIE-46

CURRENT OUTLOOK IN IRANI. Background

A. The Oil Issue. Negotiations between the Iranian and British Governments, designed to lead to the resumption of operations of the Abadan refinery, are at an impasse, primarily over the issue of the operating agency. The British position is that the operation can be conducted only with the aid of British technicians who are willing to work only under British management. They therefore propose that the operating agency be a British organization working under the overall policy direction of the Iranian Oil Company, but with a British general manager. The Iranian position is that the operating agency must be Iranian, though with foreign participation, that the management consist of a board, and that foreign technicians sign individual contracts with the Iranian Oil Company. The British Government on behalf of the Anglo-Iranian Oil Company (AIOC) has accepted the nationalization of AIOC properties within Iran in principle, but has been at pains to insist upon the company's legal rights arising from the 1933 agreement and upon the British Government's obligation to protect its nationals abroad. An obligation to protect British property abroad has been hinted at, but not stated concretely. The Iranian Government has taken the position that the 1933 agreement is abrogated by virtue Parliament's exercise of the sovereign right of the nation; has offered to indemnify the AIOC; and has denied that British lives or property are endangered. At the present time each side asserts the obligation of the other side to come forth with new proposals, although the British have stated their belief that no settlement will be possible with Dr. Mosadeq as Prime Minister.

B. The Political Scene in Iran. Dr. Mosadeq and his National Front group are the dominant political figures in the current situation in Iran. They derive their support from the fact that the oil controversy has been interpreted as a fight for national independence from foreign interference in the internal affairs of Iran. Iranians believe that they have traditionally suffered from Russian and British interference in Iranian affairs, that they have freed themselves of Russian interference, and that this is probably their best opportunity to free themselves from British interference, stemming from the activities of the AIOC. This interpretation is widely accepted and coincides with a deep-seated Iranian

SECRET

SECRET

2

sensitivity to foreign criticism and pressure. The hard core of National Front support comes from skilled workers, small shop-keepers, teachers, students, and most government employees below the top political levels. On the oil issue, support is almost universal, including the Communist-dominated Tudeh membership. The great majority of the supporters of the National Front are non-Communist. This new force of which the National Front leaders are the spokesmen has emerged between the traditional ruling aristocracy and the peasant masses. Although it is disunited and only partially articulate, its motivations arise from a general anti-foreign attitude and a conviction that a higher standard of living is within Iranian capabilities. This growing conviction has been stimulated by foreign propaganda during the past 10 years, although the Iranians tend to ignore the contrasting methods of achieving improvement--namely, the West's evolution and the Soviet's revolution.

The vocal opposition to Mosadeq which has recently emerged in the Majlis consists of deputies who have long been regarded as supporters of British policy in Iran; deputies who represent commercial interests which are already suffering from Mosadeq's policy; and deputies who sincerely believe in nationalization but disapprove of Mosadeq's methods. Opposition is also stimulated in the Majlis by the fact that elections for the next Majlis would normally be announced on September 19, this session ending its term on February 19, 1952. In elections the advantage lies with the government in power. Should the National Front remain in power, it is probable that elections would be somewhat freer than in the past, although the National Front would probably intervene, if necessary, to assure the defeat of a considerable number of the current deputies. However, if they oppose Mosadeq now on an issue which he has presented as a fight for national independence, they must face a popular charge of treason. Although it is possible that Majlis opposition may force Mosadeq out, any successor without Mosadeq's support would be faced with a troublesome minority in the Majlis and active outside opposition. Such a successor would require the active support of the army, whose sympathies might be predominantly on Mosadeq's side.

As Mosadeq has proceeded further and further along the road to nationalization, the Shah's already weakened influence has progressively declined. The Shah would not have chosen Mosadeq as Prime Minister, but accepted him in response to the wishes of the Majlis. For the first time a government came to power with popular backing. The Shah signed the oil

SECRET

SECRET

3

nationalization law passed by the Majlis and Senate. Since the inauguration of the Senate there has been little evidence of the Shah's influence with that body, which has supported Mosadeq on the oil issue. As a patriotic Iranian sworn to defend his country's interests he shares the national aspiration of seeing British internal interference ended. Although he is fully aware of the dangerous consequences of a shut-down of the oil operations, he cannot openly support a proposal to continue, in effect, the AIOC organization within Iran without running the grave risk of a revolution. In view of Mosadeq's strong following the Shah cannot risk the dangers of attempting to remove him, nor is there any certainty that Mosadeq would leave. An outside possibility is that the Shah, under strong British pressure, might arrest Mosadeq and his most extreme supporters, such as Mullah Kashani, and risk the outcome of the civil war which would almost certainly follow.

C. Iran's Ability to Operate the Oil Industry. The Iranian Government admits that Iranians cannot run the oil industry without foreign assistance. While they would like to have British assistance, they do not believe that there is no alternative. They insist that competent technicians of other nationalities would work for them should the British withdraw entirely. They also believe that, if their oil is sold cheaply enough, customers will come to get it. They are to some extent encouraged by the recently signed agreement with Afghanistan to purchase gasoline and kerosene and by the reported offers of purchase from Poland and Czechoslovakia. Their financial position is also currently aided by receipts from the local sales of products from Abadan stocks and their supply of petroleum products is partially assumed from the production of the small refinery at Kermanshah which can continue operating for some months. They tend to take the attitude that only partial operation would eventually net them as much as they have been receiving; and that the need for their oil and refining capacity abroad is so great that pressure on the British will eventually force the latter to accept an agreement which will at least remove from within Iran the old AIOC organization and so free Iran of internal British interference. Under those circumstances they believe that Iran could go ahead with effective efforts to achieve economic, social and political reforms. While there is a large element of wishful thinking in the above Iranian evaluation, it is nevertheless the currently dominant conviction among the vocal elements.

SECRET

SECRET

4

D. Iran's Ability to get along without Oil Revenues. The absence of oil revenues would restrict Iranian foreign exchange expenditures to the amount which Iran could earn from its annual exports and the approximately 40 million dollars of sterling in London. Imports from this source could and would be supplemented by imports procured through barter arrangements such as exist now with the Soviet Union and existed before the war with Germany. The major imports excluded would be non-essential items, such as luxury automobiles, perfumes, and lingerie, and capital goods, such as railroad equipment, machinery, and spare parts much of which is ordinarily imported for the maintenance and expansion of the oil facilities. The exclusion of non-essential items would affect seriously only a very small percentage of the population whose current political influence is not decisive. The exclusion of materials for capital expansion would halt economic, especially industrial development which would probably have to be halted in any case for lack of sufficient internal financing capacity. Essential imports are sugar and cotton goods, of which possibly adequate amounts could be procured by barter arrangements with the USSR, tea and certain essential industrial materials. If imports were restricted to these essential imports, which constitute approximately 40% of total imports, they could be financed indefinitely by the foreign exchange ordinarily earned from non-oil exports and through barter trade agreements. Such a sharp restriction on imports could be postponed for several months, perhaps as long as 6 months, due to the availability of the sterling exchange held in London for financing of imports. The absence of oil revenues would, however, eventually lead to a gradual shrinking of non-agricultural activity in Iran and, if sufficiently prolonged, would lead to considerable economic tension and hardship particularly among the urban groups of the population. It is however probable that the population would accept these hardships for a period of six months or longer, if their acquiescence were regarded as the alternative to agreement to reinstate a British oil organization within Iran. Although it is extremely difficult to gauge the relative strength of material versus idealistic motivations in Iran, it appears probable that for the next few months, at least, the latter will continue to dominate the oil issue. The major danger to the maintenance of a relatively balanced economy without oil revenues is the demonstrated Iranian weakness in enforcing regulations.

## II. Probable Alternative Outcomes of the Oil Issue

A. Continuation of a Stalemate. This is the most unlikely

SECRET

SECRET

5

outcome because it is working to the disadvantage of both the Iranians and the British. British economic restrictions, including abrogation of the sterling convertibility agreement, are not likely within the near future to break the determination of the Iranian people. If the British personnel in Abadan withdraws, it is probable that the Iranian Government will eventually succeed in restoring a limited production, even though at a much greater cost per unit. Continuation of the stalemate may be expected to result in an increase of barter trade with the USSR accompanied by an increase of Soviet personnel within Iran ostensibly engaged in the trade. A continuation of the stalemate would probably oblige the government to turn its attention to internal problems of a more controversial nature. There has already been a notable decline in the efficiency and effectiveness of activity in government ministries as a result of preoccupation with the oil issue. It is probable that the government's Majlis support would break apart, although, if the National Front remains in power during the elections, it may still maintain a Majlis majority. However, resentment against the West, which will be blamed for wrecking the oil industry will inevitably tend to turn the people toward the Soviet Union. In the absence of effective Western aid to check such a development, it is probable that Soviet-oriented elements would eventually gain control of the government. As that time approached it is probable that significant numbers of the traditional ruling group would leave the country.

B. Settlement with Mosadeq. As the internal economic situation worsens, pressure upon Mosadeq to find a solution will increase. The gradual demonstration of the lack of qualified Iranian personnel will probably make an impression on him. Any attempt to operate the industry without British aid is certain to end in disillusionment. As these factors combine Mosadeq may come forward with a new proposal suggesting an operating company under neutral management. A British proposal to this effect would probably be acceptable to Mosadeq and thus might obviate the hazards inherent in delaying a compromise solution.

C. Replacement of Mosadeq and Renewal of Conversations. For the reasons noted above, it is unlikely that Mosadeq can be forced out of office. If he is forced out, he will become a martyr with a large impassioned following. There is a possibility that he might withdraw in favor of some other member of the National Front, although there is no member of sufficient stature to retain the post of Prime Minister without Mosadeq's backing. At the present time Tudeh does not

SECRET

SECRET

6

have the capability of seizing control. If Mosadeq should die, the National Front leaders, in spite of serious internal friction, would probably hold together in self protection and retain Mosadeq's following on the oil issue. If Mosadeq were assassinated, the British would be blamed, and resentment against them would become further intensified.

Any successor of Mosadeq would probably reopen oil conversations with the British. It is clearly the British hope that a potential successor, such as the ex-Prime Minister Seyyed Zia Tabatabai, would be willing to accept a solution which would, in effect, restore the AIOC organization within Iran. Seyyed Zia's strategy would be to become Prime Minister if possible before the elections and so control them. If that is impossible, then to make every effort to obtain the election of an adequate number of supporters to assure his selection as Prime Minister by the next legislature. At the present time it appears doubtful that he can accomplish either objective. Even if he were to succeed, there is considerable doubt as to his ability, granting his willingness, to obtain Majlis approval of a settlement which would restore the British position in Iran. A compromise settlement with anyone but Mosadeq would clearly involve less loss of face by the British, so Seyyed Zia or another successor would probably have a better chance of arriving at a settlement. Were Seyyed Zia to attempt to force the acceptance of the current British position re terms for compromise, he would have to rely upon the support of the army and police. That that support would be forthcoming on this issue is very doubtful.

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